

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 PA-01 /102 W
-----035018 122114Z /66

R 121723Z JUN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7057
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USDOC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 09273

USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE; DEPARTMENT OF LABOR:
TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: GDS
TAGS: EFIN, ELAB, PINT, UK
SUBJECT: INCOMES POLICY -- THE LULL

SUMMARY: THE LULL IN PUBLIC COMMENT ABOUT THE COMING PAY
ROUND HAS BEEN ENGINEERED BY THE GOVERNMENT AND THE TUC.
THE GOVERNMENT IS STILL UNDECIDED AS TO TACTICS BUT IS
CERTAIN TO PRESS FOR A SMALLER AVERAGE EARNINGS RISE THAN
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IS PRESENTLY THE CASE. END SUMMARY.

1. ACCORDING TO A SENIOR HMTREASURY CIVIL SERVANT (PRO-
TECT), THE CURRENT ABSENCE OF MUCH PUBLIC REFERENCE TO THE
NEED FOR A FOURTH PHASE OF INCOMES POLICY IS THE RESULT
OF A BEHIND-THE-SCENES ACCORD BETWEEN HMG AND THE TUC.
BOTH BELIEVE THAT EXTENSIVE PUBLIC DISCUSSION OF THE QUES-

TION WOULD NOT BE HELPFUL UNTIL THE ANNUAL UNION CONFERENCE SEASON ENDS IN JULY ALTHOUGH THE GOVERNMENT MAY SPELL OUT ITS HOPES IN SOME DETAIL BY THEN.

2. THERE IS REPORTEDLY A DIFFERENCE OF OPINION WITH HMG AS TO PROPER TACTICS. ONE VIEW APPARENTLY FAVORS THE EARLY ISSUANCE OF A NEW WHITE PAPER ON COUNTER-INFLATION POLICY SIMILAR TO THE ONES ISSUED PRIOR TO PHASES 1, 2 AND 3 OF INCOMES POLICY. THIS WOULD SET OUT THE GOVERNMENT'S POLICY ON PAY INCREASES AND ARM THE GOVERNMENT WITH THE AUTHORITY TO ENFORCE THE PAY CLAUSES IN GOVERNMENT CONTRACTS WITH THE PRIVATE SECTOR. IT SHOULD BE RECALLED (SEE LONDON 2971) THAT THE BLACKLISTING CONTROVERSY OF JANUARY AND FEBRUARY 1978 STEMMED IN PART FROM HMG'S INTERPRETATION OF THE AUTHORITY GRANTED BY THE 1977 WHITE PAPER.

3. THE GOVERNMENT'S GOAL IN THE COMING PAY ROUND IS REPORTEDLY TO ACHIEVE A CONSIDERABLY SMALLER RISE IN AVERAGE EARNINGS THAN IS LIKELY FOR THE CURRENT ROUND (HMT EXPECTS A RISE OF 12-13 PERCENT ON THE NEWER INDEX, 14-15 PERCENT ON THE OLDER ONE). GIVEN HMG'S APPARENT INTENTION TO CONTINUE TO PRESENT A TOUGH LINE AGAINST EXCESSIVE SETTLEMENTS IN THE PUBLIC SECTOR, IT IS UNDERSTANDABLE THAT THE HMTREASURY OFFICIAL WAS CONCERNED ABOUT PRIVATE SECTOR SETTLEMENTS. THERE, COMPANIES, CURRENTLY IN A FAIRLY LI-

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QUID STATE (IMPROVED CASH FLOW DUE TO DECLINING STOCKS, RISING PROFITS, RELATIVELY FLAT INVESTMENT), MAY NOT BE VERY AVERSE TO AGREEING TO SUBSTANTIAL WAGE SETTLEMENTS. THIS FEAR UNDERLIES THE ARGUMENT FAVORING THE ISSUANCE OF ANOTHER WHITE PAPER AS THE LEGAL BASIS FOR PRESSURE ON THE PRIVATE SECTOR IN OPPOSITION TO PAY SETTLEMENTS WHICH ARE DEEMED EXCESSIVE.

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4. THE SECOND CURRENT OF OPINION HOLDS THAT NO WHITE PAPER SHOULD BE ISSUED; RATHER, HMG SHOULD PIN ITS HOPES ON THE SEPTEMBER TUC CONGRESS ADOPTING A COMPOSITE RESOLUTION FAVORING WAGE MODERATION AND CONTAINING SOME KIND OF MODIFIED RULE GUARANTEEING A LAPSE OF 12 MONTHS BETWEEN PAY SETTLEMENTS.

5. THE DIFFICULTY WITH THE SECOND OPTION IS RELATED TO THE INEVITABLE VAGUENESS OF A RESOLUTION ON PAY SATISFACTORY TO A MAJORITY OF THE TUC MEMBERSHIP. IN ADDITION, HMG ALSO INTENDS TO TRY AND INFLUENCE THE WORDING IN A CONFIDENTIAL

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WAY INDICATING TUC SUPPORT FOR MOVEMENT TOWARD A SHORTER PAY BARGAINING SEASON. THIS WOULD MEAN OVERRIDING THE 12-MONTH RULE FOR SOME UNIONS IN THE INTEREST OF COMPRESSING THE BARGAINING PERIOD. (NOTE: HMG REFUSED TO ALLOW A MOVE IN THIS DIRECTION IN THE CURRENT PAY ROUND FOR LEYLAND WORKERS.)

6. WITH REGARD TO THE CURRENT ROUND WHICH ENDS IN JULY, THE SOURCE INDICATED THAT SELF-FINANCING PRODUCTIVITY DEALS HAVE BEEN LESS WIDESPREAD THAN ANTICIPATED. SUCH DEALS ARE LIKELY TO AFFECT ABOUT 10 PERCENT OF THE LABOR FORCE WITH THE PROPORTION RISING TO MORE LIKE 25-30 PER-

CENT IN MANUFACTURING. MOST OF THESE DEALS ARE REPORTEDLY
GENUINE AND ARE ESTIMATED TO BE ADDING ABOUT 1.5 PERCENTAGE
POINTS TO THE OVERALL GROWTH IN EARNINGS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: WAGES, POLICIES, COST OF LIVING WAGE ADJUSTMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 12 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON09273
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780245-0820
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780667/aaaacgfs.tel
Line Count: 175
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 4936d18a-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2382223
Secure: OPEN
Status: NATIVE
Subject: INCOMES POLICY -- THE LULL SUMMARY: THE LULL IN PUBLIC COMMENT ABOUT THE COMING PAY ROUND HAS BEEN ENGINEERED BY THE GOVERNMENT AND TH
TAGS: EFIN, ELAB, PINT, UK
To: STATE TRSY MULTIPLE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/4936d18a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014